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Evidence Regarding Cost-Benefit Analysis of Sandhill Upgrade Project

1. Exhibit 9, Direct Testimony of Frank A. LoGuidice, at 15-17.

2. Exhibit 8, Direct Testimony of Daniel A. Dell'Osa, at 34-40 and Attachment B.

3. Exhibit 7, Direct Testimony of Gerald J. Black (adopted by Christopher Diggs), at 18.

4. Exhibit 68, Deposition of Daniel A. Dell'Osa, at 62-83, 93-96.

5. Oral Testimony of Daniel A. Dell'Osa, Transcript at 329-345.

Application No. _____

Exhibit No. SG-9

Witness _____

Date _____

SAN GABRIEL VALLEY WATER COMPANY

DIRECT TESTIMONY OF

FRANK A. LoGUIDICE

August 2005

Trihalomethanes in Drinking Water, the regulation that preceded the Stage 1 Disinfectants/Disinfection Byproducts Rule. With the promulgation of the Stage 1 Disinfectants/Disinfection Byproducts Rule, the MCLs for TTHMs and HAA5 were lowered to 80 ppb and 60 ppb respectively. Long Term 2 Enhanced Surface Water Treatment Rule and Stage 2 Disinfection Byproducts Rule are being discussed now. Initial indications are that these new rules will lower the TTHMs and HAA5 to 60 ppb and 40 ppb respectively. The Sandhill Plant upgrades and modifications will provide enhanced coagulation to remove the disinfection byproduct precursors prior to the addition of the disinfectant. The enhanced coagulation will minimize the formation of disinfection byproducts, thus enabling the Sandhill Plant to stay in compliance with the current and future regulations, whether it is treating only Lytle Creek surface water, only SWP water or a combination of the two.

- Enhanced coagulation is required when the source water contains total organic carbon above 2.0 milligrams per Liter (mg/L), and the total alkalinity exceeds 60 mg/L. The combination of Lytle Creek surface water and SWP water will exceed these parameters. The upgrades and modifications to the Sandhill Plant are designed to include enhanced coagulation.

Q. DID SAN GABRIEL CONDUCT A COST-BENEFIT ANALYSIS FOR THE SANDHILL WATER TREATMENT PLANT UPGRADES?

A. Yes. San Gabriel prepared a cost-benefit analysis for the Sandhill Plant modifications which included the costs attributable to the incremental production capabilities associated with the Sandhill modifications and the incremental production costs associated with groundwater production facilities located within the Chino Basin. The analysis included capital costs and expenses associated with the cost of water, power, chemicals, and labor.

Past invoices payable to CVWD were used to calculate the cost of Lytle Creek surface water treated at the Sandhill Plant. The cost of SWP water are those charged by Muni and Inland Empire Utilities Association (" IEUA"). The cost for replenishment water for water pumped from the Chino Basin is that charged by IEUA, including approximate assessments and fees.

Power consumption for the Sandhill Plant are calculated using recorded power costs per acre foot of water produced. This is a conservative estimate due to the fact that the upgraded Sandhill Plant will rely more on gravity and not power to move water through the plant.

Power usage for the Chino Basin wells are based upon the average kW/h per acre foot experienced at the three Plant F44 wells. The average power cost for the booster pumps at Plant F44 was used to calculate the power consumption for boosting. It was also assumed that 80 percent of the water produced from the new Chino Basin wells would need to be boosted to a second pressure system because most of the company's growth is occurring at higher elevations in the northern portion of its service area.

The cost of chemicals for the Sandhill Plant are based on past chemical expenses experienced by the company over the past several years for the DE portion of the plant. The company used CVWD's recorded costs to treat SWP water at its Lloyd Michael Water Treatment Plant to estimate those costs for the Sandhill Plant. The company assumed that 50 percent of the water after completing the ugrades, will be treated through the upgrades and the other 50 percent will be treated by the DE filters.

Chemical expenses for water produced from the Chino Basin are based on past company experience.

It is estimated that ten Water Treatment Operators will be required to properly operate the Sandhill Plant after the upgrades. The company used an hourly rate of $30 per hour for Water Treatment Operators and added fringe at 49 percent of estimated labor costs.

The estimated labor for the Chino Basin wells was calculated by dividing the number of employees currently responsible for operating and maintaining the current well facilities by the number of acre feet of water produced from these sites. Because employees operating and maintaining the wells are not all at the same rate of pay an average was used along with fringe at 49 percent of estimated labor costs.

Capital costs for the Sandhill upgrades are all based on contractual agreements. The capital costs to drill Chino Basin Wells is an estimate based on the company' s recent experience in constructing similar projects.

Q. CAN FONTANA WATER COMPANY CONTINUE TO TAKE SWP WATER AND TREAT IT AT THE SANDHILL PLANT WHILE LYTLE CREEK SURFACE WATER IS UNAVAILABLE BECAUSE OF HIGH TURBIDITY?

A. No. The Amendment to the Domestic Water Supply Permit issued by the CDHS in July 2002 allows the Sandhill Water Treatment Plant to accept SWP water only when it can be blended with Lytle Creek water. The influent flow to the Sandhill DE Plant cannot contain more than 80 percent of SWP water, the remaining 20 percent or more being Lytle Creek water. Therefore, when Lytle Creek surface water is unavailable due to high turbidity, or low flows, the entire Sandhill Plant must be shut down.

After the Sandhill Plant modifications and upgrades are completed the plant will be able to treat SWP water without needing to blend it with Lytle Creek water. This is due to the fact that the required upgrades include the prefiltration processes of coagulation, flocculation, and sedimentation. These processes have been proven to effectively remove turbidity at levels ranging from 1.5-15 NTU (and higher) which have been detected in untreated SWP water and Lytle Creek surface water.

The Company 's Capital Budget Process

Q. PLEASE EXPLAIN SAN GABRIEL 'S CAPITAL BUDGETING PROCESS.

A. San Gabriel' s annual construction budgeting and approval process follows an established procedure. The Vice President-Engineering and Operations is responsible for preparing the company' s four-year construction budget based upon the needs and recommendations obtained from department supervisors and recommendations prescribed in the company' s Water Master Plan. The Vice President-Engineering and Operations modifies the department supervisor' s requests as required to meet both financial and operational guidelines.

The financial guidelines, which ordinarily allow rate base to grow by approximately 10 percent each year, depend on the company' s need to assure

Application No. _____

Exhibit No. SG-8

Witness _____

Date _____

SAN GABRIEL VALLEY WATER COMPANY

DIRECT TESTIMONY OF

DANIEL A. DELL'OSA

August 2005

A. No. San Gabriel seeks to amortize the balances in these accounts as of a date prior to the final decision in this proceeding. Any amounts that San Gabriel is authorized by the Commission to amortize in the pending or any future advice letters, prior to the final decision in this proceeding, are therefore excluded from San Gabriel's request in this application.

Q. PLEASE DESCRIBE YOUR WORKPAPERS RELATED TO THE WATER QUALITY LITIGATION MEMORANDUM ACCOUNT.

A. The workpapers show that the December 2004 balance of $1,689,904 consists of four components: Lytle Creek Well ($2,437), Contamination ($441,220) Perchlorate Task Force ($1,746,567) less amortizations from July to December 2004 ($500,341). Mr. Whitehead describes the water quality litigation in his prepared testimony (Ex. SG-12). Since San Gabriel has provided each of the supporting invoices in either the last general rate case (A.02-11-044) or Advice Letter 334-W, only the summary sheets are included as Workpapers 169-173.

V. Cost-Benefit Analysis for Sandhill Upgrade Project

Q. DID YOU PREPARE A COST-BENEFIT ANALYSIS FOR THE SANDHILL TREATMENT PLANT UPGRADE PROJECT?

A. Yes, I did.

Q. WHAT HAVE YOU CONCLUDED FROM YOUR ANALYSIS?

A. I have concluded that the proposed project is more cost-effective for ratepayers than the "No Project" alternative. Fontana Water Company's $34 million investment in this project will produce a life-cycle net benefit to ratepayers of $52.8 million in

today's dollars. On a nominal dollar basis, the project will pay for itself in only 2.3 years. (See **Attachment B**, page 1).

The critical input assumptions for this analysis were provided to me by Mr. LoGuidice. To test the impact of his assumptions, I performed a sensitivity analysis by assuming wide variances in these key inputs. In each and every case, the proposed project remained the superior alternative from the ratepayers' perspective (See **Attachment B**, page 6).

Q. PLEASE DESCRIBE THE ALTERNATIVES THAT WERE EXAMINED IN YOUR COST-BENEFIT ANALYSIS.

A. I compared two alternatives: the proposed Sandhill Upgrade project and the "No Project" alternative. The Sandhill Upgrade project is included in the company's capital budgets at a cost of $34 million and is expected to become operational by ~~January~~ August 2007. This project will treat an additional 20 MGD of surface water. If the proposed project were not built, the company would have to rely on additional production from the Chino Basin to supply this water. Since the company has already planned to add Chino Basin wells during this rate case cycle in addition to the Sandhill Upgrade Project, the "No Project" alternative simply means additional Chino Basin well projects, designed to produce 20 MGD, that would become operational in ~~January~~ August 2007. **Attachment B**, page 7, illustrates this concept as further explained below.

With or without the Sandhill Upgrade Project, Fontana Water Company has a customer water demand that is expected to grow from 73 MGD in 2005 to 106 MGD by 2025. Assuming a needed water production capacity reserve of 15%, the

required production capacity must grow from 84 MGD in 2005 to 121.9 MGD by 2025. Fontana Water Company currently has 78.8 MGD of installed capacity, with the remainder to be supplied by expanded and upgraded surface water treatment at the Sandhill Treatment Plant Upgrade Project or by new wells in the Chino Basin. The Sandhill Upgrade Project will avoid the need to install 20 MGD of additional new well capacity in 2007.

Likewise, to serve its customers, Fontana Water Company needs both the surface water treated at the Sandhill Treatment Plant and the groundwater produced by company wells. The Sandhill Upgrade Project will eliminate the need to produce 20 MGD from either existing or new wells starting in 2007.

Thus, the cost-benefit analysis reflects both the capital cost of constructing the 20 MGD of capacity and the 20 MGD operating and maintenance (O&M) expense at the Sandhill Treatment Plant versus at the Chino Basin wells.

Q. WHAT IS THE ESTIMATED CAPITAL COST OF THE "NO PROJECT" ALTERNATIVE?

A. In his prepared testimony, Mr. LoGuidice estimates that a new 5.75 MGD Chino Basin well site can be constructed at a cost of $3.29 million. This cost includes not only the wells, but also storage and booster pumps. This is a conservative assumption as it excludes any water treatment facilities that might be required and any new transmission mains necessary to carry the water from the Chino Basin to the customer load center. For comparability to the proposed project that treats 20 MGD, I proportionately increased Mr. LoGuidice's estimate to $11,443,000.

Q. WHAT ARE THE ESTIMATED ANNUAL OPERATIONS & MAINTENANCE (O&M) COSTS OF THE TWO ALTERNATIVES?

A. In his prepared testimony, Mr. LoGuidice estimates the O&M cost of the Sandhill Upgrade Project at $766.50/MGD (escalated at 3% per year) and the O&M cost for Chino Basin wells (including pumping, storage, and boosting costs) at $1,327.41/MGD (escalated at 5% per year). This O&M cost for the Chino Basin wells would be even higher if water treatment was required.

Q. WHAT OTHER ASSUMPTIONS DID YOU INCLUDE IN YOUR ANALYSIS?

A. I assumed a 30-year life and no net salvage for each project (hence a 3.33% depreciation accrual rate), a 1% property tax rate, and a 17% pre-tax rate of return (9.4% return on rate base times a 1.8 net-to-gross factor based on the most recent general rate case decision). Since the cost of money for individual ratepayers varies widely, it is traditional to use the utility's adopted return on rate base (9.4% for Fontana Water Company) as the discount rate. These assumptions are listed on **Attachment B**, pages 4 and 5.

Q. PLEASE DESCRIBE YOUR CALCULATIONS FOR THE SANDHILL UPGRADE PROJECT.

A. **Attachment B**, page 2, shows the estimated year-by-year revenue requirement, consisting of O&M Expense, Depreciation Expense, Property Taxes, and Pre-Tax Return. O&M Expense is $5.8 million in 2007 and increases to $13.6 million by 2036 due to inflation. O&M Expense comprises approximately 70% of the total life cycle costs. Depreciation Expense is $1.1 million every year and totals the $34 million capital cost over the life cycle of the proposed project. Property Taxes and

Return are based on the average company investment and steadily decline from year-to-year as the proposed project is depreciated. The annual revenue requirement rises from $12.9 million in 2007 to $14.8 million in 2036 for a total of $400.0 million. Discounted at 9.4% to 2006 dollars, the total cost of the proposed project is $129.1 million.

Q. PLEASE DESCRIBE YOUR CALCULATIONS FOR THE "NO PROJECT" ALTERNATIVE.

A. **Attachment B**, page 3, shows the estimated year-by-year revenue requirement, consisting of O&M Expense, Depreciation Expense, Property Taxes, and Pre-Tax Return. O&M Expense is $10.2 million in 2007 and increases to $41.9 million in 2036 due to inflation. O&M Expense comprises about 94% of the total life cycle costs. Depreciation Expense is $0.4 million every year and totals the $11.4 million capital cost over the life cycle of the "No Project" alternative. Property Taxes and Return are based on the average company investment and steadily decline from year-to-year as the "No Project" alternative is depreciated. The annual revenue requirement rises from $12.6 million in 2007 to $42.3 million in 2036 for a total of $718.3 million. Discounted at 9.4% to 2006 dollars, the total cost of the "No Project" alternative is $181.9 million.

Q. FROM THE RATEPAYERS' PERSPECTIVE, WHICH PROJECT IS MOST DESIRABLE?

A. The proposed Sandhill Upgrade is clearly the preferred project from the ratepayers' perspective. **Attachment B**, page 1, summarizes the annual revenue requirement of the Sandhill Upgrade Project and the "No Project" alternative. If the Sandhill Upgrade is constructed instead of adding Chino Basin wells to satisfy water supply

needs, it is estimated that ratepayers would save $318.3 million over the next thirty years. On a discounted (present worth 2006 dollars) basis, ratepayers save $52.8 million. The revenue requirement of the proposed project is higher than that for the "No Project" alternative only in the first year, but this is quickly eliminated over the following sixteen months. Ratepayer benefits continue to grow thereafter and reach $27.5 million in the final year alone.

Q. PLEASE DESCRIBE THE SENSITIVITY ANALYSIS THAT YOU PREVIOUSLY MENTIONED.

A. Since we are examining rate impacts over a future thirty-year span in the cost-benefit analysis, there is a risk that the assumptions used herein will not be accurate for the entire span of time. Of course, the further out in time the variances occur, the smaller the impact on the study results (i.e., future dollars are discounted).

To test the validity of the cost-benefit analysis, I varied the critical inputs to determine the impact on my findings. **Attachment B**, page 6, summarizes the results. In each case, the proposed Sandhill Upgrade remains preferable from the ratepayers' perspective; that is, the net ratepayer benefits stay positive and the payback is attained well within the 30-year life cycle. The least favorable scenarios occur when the estimated O&M expense for the Chino Basin wells was reduced (not likely with rapidly rising energy costs) – the Net Present Value falls from $52.8 million to about $20 million (still positive), and the payback period grows from 2.3 years to 12.1 years at worst.

This sensitivity analysis provides compelling support for the validity of cost-benefit analysis and the resulting economic justification for the Sandhill Upgrade Project.

VI. San Gabriel's Compliance With Decision No. 04-07-034

Q. ARE YOU FAMILIAR WITH DECISION NO. 04-07-034 IN APPLICATION NO. 02-11-034?

A. Yes, I am. That decision was issued in the last general rate case for the Fontana Water Company division and requires the company to address several matters in this general rate case proceeding.

Q. ORDERING PARAGRAPH NO. 3 OF D.04-07-034 REQUIRES THE COMPANY TO "PROVIDE A REPORT DETAILING ITS EFFORTS TO SUPPLY RECLAIMED WATER TO LARGE CUSTOMERS ABLE TO USE THIS WATER FOR NON-POTABLE USES." HAS THE COMPANY COMPLIED WITH THIS ORDER?

A. Yes, Mr. McGraw is sponsoring this report and has appended it to his prepared direct testimony (Ex. SG-10).

Q. ORDERING PARAGRAPH NO. 5 OF D.04-07-034 REQUIRES THE COMPANY, IF IT REQUESTS AUTHORIZATION TO CONSTRUCT A NEW OFFICE BUILDING, TO "ADDRESS THE RATEMAKING TREATMENT OF THE PROCEEDS FROM THE SALE OF THE EXISTING FACILITY." HAS THE COMPANY COMPLIED WITH THIS ORDER?

A. Yes. The company is requesting authorization in this proceeding to construct a new office, garage, warehouse, and storage yard facility and proposes to reflect that

Sandhill Upgrade project
Cost-Benefit Analysis
from Ratepayer's Perspective
($000)

Year	Sandhill Upgrade		No Project Alternative		Net Ratepayer Benefit		
	Nominal $	Current $	Nominal $	Current $	Nominal $	Current $	Cumm Nom. $
0							
1	$12,915	$11,805	$12,582	$11,500	($333)	($304)	($333)
2	$12,884	$10,765	$13,022	$10,880	$138	$115	($195)
3	$12,858	$9,820	$13,487	$10,301	$629	$481	$434
4	$12,837	$8,962	$13,979	$9,759	$1,142	$797	$1,577
5	$12,822	$8,182	$14,500	$9,253	$1,678	$1,071	$3,254
6	$12,813	$7,474	$15,049	$8,778	$2,237	$1,305	$5,491
7	$12,809	$6,830	$15,630	$8,334	$2,821	$1,504	$8,312
8	$12,811	$6,244	$16,243	$7,916	$3,432	$1,672	$11,743
9	$12,820	$5,711	$16,890	$7,525	$4,070	$1,813	$15,813
10	$12,835	$5,227	$17,573	$7,156	$4,738	$1,929	$20,551
11	$12,857	$4,786	$18,294	$6,809	$5,437	$2,024	$25,988
12	$12,885	$4,384	$19,054	$6,483	$6,169	$2,099	$32,157
13	$12,920	$4,018	$19,855	$6,175	$6,935	$2,157	$39,092
14	$12,963	$3,685	$20,700	$5,885	$7,737	$2,200	$46,829
15	$13,013	$3,382	$21,591	$5,611	$8,578	$2,229	$55,407
16	$13,070	$3,105	$22,529	$5,351	$9,459	$2,247	$64,866
17	$13,136	$2,852	$23,518	$5,106	$10,382	$2,254	$75,248
18	$13,209	$2,622	$24,560	$4,874	$11,351	$2,253	$86,599
19	$13,291	$2,411	$25,657	$4,655	$12,366	$2,243	$98,965
20	$13,381	$2,219	$26,813	$4,446	$13,432	$2,227	$112,397
21	$13,481	$2,043	$28,030	$4,249	$14,549	$2,205	$126,946
22	$13,589	$1,883	$29,311	$4,061	$15,722	$2,178	$142,669
23	$13,706	$1,736	$30,660	$3,883	$16,953	$2,147	$159,622
24	$13,834	$1,601	$32,079	$3,714	$18,246	$2,112	$177,868
25	$13,971	$1,478	$33,573	$3,553	$19,602	$2,074	$197,470
26	$14,118	$1,366	$35,145	$3,400	$21,027	$2,034	$218,497
27	$14,276	$1,262	$36,799	$3,254	$22,523	$1,991	$241,020
28	$14,445	$1,167	$38,540	$3,115	$24,094	$1,947	$265,114
29	$14,625	$1,080	$40,370	$2,982	$25,745	$1,902	$290,859
30	$14,817	$1,001	$42,296	$2,856	$27,479	$1,856	$318,337
Total	$399,992	$129,100	$718,329	$181,864	$318,337	$52,763	

Net Present Value = $52,763
Payback Period = 2.3 years

B1

Sandhill Upgrade Project
Revenue Requirement
($000)

Line	Year	Avg. Net Investment	O&M Expense	Depreciation Expense	Property Taxes	Pre-Tax Return	Total Nominal $	Total Current $
Investment		$34,000						
1	2007	$33,433	$5,763	$1,133	$334	$5,684	$12,915	$11,805
2	2008	$32,300	$5,936	$1,133	$323	$5,491	$12,884	$10,765
3	2009	$31,167	$6,114	$1,133	$312	$5,298	$12,858	$9,820
4	2010	$30,033	$6,298	$1,133	$300	$5,106	$12,837	$8,962
5	2011	$28,900	$6,487	$1,133	$289	$4,913	$12,822	$8,182
6	2012	$27,767	$6,681	$1,133	$278	$4,720	$12,813	$7,474
7	2013	$26,633	$6,882	$1,133	$266	$4,528	$12,809	$6,830
8	2014	$25,500	$7,088	$1,133	$255	$4,335	$12,811	$6,244
9	2015	$24,367	$7,301	$1,133	$244	$4,142	$12,820	$5,711
10	2016	$23,233	$7,520	$1,133	$232	$3,950	$12,835	$5,227
11	2017	$22,100	$7,745	$1,133	$221	$3,757	$12,857	$4,786
12	2018	$20,967	$7,978	$1,133	$210	$3,564	$12,885	$4,384
13	2019	$19,833	$8,217	$1,133	$198	$3,372	$12,920	$4,018
14	2020	$18,700	$8,464	$1,133	$187	$3,179	$12,963	$3,685
15	2021	$17,567	$8,718	$1,133	$176	$2,986	$13,013	$3,382
16	2022	$16,433	$8,979	$1,133	$164	$2,794	$13,070	$3,105
17	2023	$15,300	$9,248	$1,133	$153	$2,601	$13,136	$2,852
18	2024	$14,167	$9,526	$1,133	$142	$2,408	$13,209	$2,622
19	2025	$13,033	$9,812	$1,133	$130	$2,216	$13,291	$2,411
20	2026	$11,900	$10,106	$1,133	$119	$2,023	$13,381	$2,219
21	2027	$10,767	$10,409	$1,133	$108	$1,830	$13,481	$2,043
22	2028	$9,633	$10,721	$1,133	$96	$1,638	$13,589	$1,883
23	2029	$8,500	$11,043	$1,133	$85	$1,445	$13,706	$1,736
24	2030	$7,367	$11,374	$1,133	$74	$1,252	$13,834	$1,601
25	2031	$6,233	$11,716	$1,133	$62	$1,060	$13,971	$1,478
26	2032	$5,100	$12,067	$1,133	$51	$867	$14,118	$1,366
27	2033	$3,967	$12,429	$1,133	$40	$674	$14,276	$1,262
28	2034	$2,833	$12,802	$1,133	$28	$482	$14,445	$1,167
29	2035	$1,700	$13,186	$1,133	$17	$289	$14,625	$1,080
30	2036	$567	$13,582	$1,133	$6	$96	$14,817	$1,001
	Total		$274,192	$34,000	$5,100	$86,700	$399,992	$129,100

Avoided Chino Basin Wells
Revenue Requirement
($000)

	Year	Avg. Net Investment	O&M Expense	Depreciation Expense	Property Taxes	Pre-Tax Return	Total Nominal $	Total Current $
Investment		$11,443						
1	2007	$11,253	$10,175	$381	$113	$1,913	$12,582	$11,500
2	2008	$10,871	$10,683	$381	$109	$1,848	$13,022	$10,880
3	2009	$10,490	$11,217	$381	$105	$1,783	$13,487	$10,301
4	2010	$10,108	$11,778	$381	$101	$1,718	$13,979	$9,759
5	2011	$9,727	$12,367	$381	$97	$1,654	$14,500	$9,253
6	2012	$9,346	$12,986	$381	$93	$1,589	$15,049	$8,778
7	2013	$8,964	$13,635	$381	$90	$1,524	$15,630	$8,334
8	2014	$8,583	$14,317	$381	$86	$1,459	$16,243	$7,916
9	2015	$8,201	$15,033	$381	$82	$1,394	$16,890	$7,525
10	2016	$7,820	$15,784	$381	$78	$1,329	$17,573	$7,156
11	2017	$7,438	$16,573	$381	$74	$1,265	$18,294	$6,809
12	2018	$7,057	$17,402	$381	$71	$1,200	$19,054	$6,483
13	2019	$6,675	$18,272	$381	$67	$1,135	$19,855	$6,175
14	2020	$6,294	$19,186	$381	$63	$1,070	$20,700	$5,885
15	2021	$5,912	$20,145	$381	$59	$1,005	$21,591	$5,611
16	2022	$5,531	$21,152	$381	$55	$940	$22,529	$5,351
17	2023	$5,150	$22,210	$381	$51	$875	$23,518	$5,106
18	2024	$4,768	$23,320	$381	$48	$811	$24,560	$4,874
19	2025	$4,387	$24,486	$381	$44	$746	$25,657	$4,655
20	2026	$4,005	$25,711	$381	$40	$681	$26,813	$4,446
21	2027	$3,624	$26,996	$381	$36	$616	$28,030	$4,249
22	2028	$3,242	$28,346	$381	$32	$551	$29,311	$4,061
23	2029	$2,861	$29,763	$381	$29	$486	$30,660	$3,883
24	2030	$2,479	$31,252	$381	$25	$422	$32,079	$3,714
25	2031	$2,098	$32,814	$381	$21	$357	$33,573	$3,553
26	2032	$1,717	$34,455	$381	$17	$292	$35,145	$3,400
27	2033	$1,335	$36,178	$381	$13	$227	$36,799	$3,254
28	2034	$954	$37,986	$381	$10	$162	$38,540	$3,115
29	2035	$572	$39,886	$381	$6	$97	$40,370	$2,982
30	2036	$191	$41,880	$381	$2	$32	$42,296	$2,856
	Total		$675,989	$11,443	$1,717	$29,181	$718,329	$181,864

ASSUMPTIONS

	Sandhill Upgrade	New Well Site
Project Cost ($000)	$34,000	$3,290
Capacity (MGD)	20	5.75
Depreciation Accrual Rate	3.33%	3.33%
Pre-Tax Rate of Return	17%	17%
Property Tax Rate	1%	1%
O&M Expense ($/MGD)	$766.50	$1,327.41
Annual O&M Expense ($/MG)	$279,772.50	$484,504.65
Annual O&M Expense ($000)	$5,595.5	$2,785.9
O&M Inflation Rate	3%	5%
Discount Rate	9.40%	9.40%

CHINO

		AF	MG
Replenishment	(250AFx.85)+5.49AF+19.94AF Dues/Fees	$ 237.93	$ 730.23
Chlorine		$ 2.00	$ 6.14
Power to pump	Average of F44 wells 848 kW/h/AF @ $.09 kW/h	$ 76.32	$ 234.23
Power to boost	Average of F44 boosters 327 kW/h/AF @ $.09 kW/h	$ 29.43	$ 90.32
Second boost	Average of F44 boosters 327 x .8 kW/h/AF @ $.09 kW/h	$ 23.54	$ 72.25
Labor	43680 hrs worked/ 27767 AF pumped x $27/hr x 49%= $/AF	$ 63.29	$ 194.24
		$ 432.51	$ 1,327.41

SANDHILL

		AF	$/AF	% of source	$/AF	$/MG
Surface water/SWP water	Lytle Creek	7976	$ 93.26	49%	$ 45.70	$ 140.25
	Muni	3000	$ 125.80	19%	$ 23.90	$ 73.36
	MWD	5257	$ 335.00	32%	$ 107.20	$ 329.01
		16233			$ 176.80	$ 542.61
Chemicals	DE filters		$7.88	50%		
	Upgrades		$21.63	50%	$14.75	$45.27
	Used F14 numbers/AF for all plant					
Power	@ $.09/AF				$12.38	$38.00
Labor	16640 hrs worked/ 16233 AF pumped x $30/hr x 49%= $/AF				$45.82	$140.63
					$249.75	$766.50

Cost of Site

Land	$500,000
Site preparation	$150,000
Walls	$100,000
Well x 2	$700,000
Well electrical x 2	$150,000
Well piping x 2	$70,000
Equip well x 2	$250,000
booster building	$140,000
Booster electrical	$210,000
Booster pumps	$210,000
Booster piping	$150,000
Cl2 equipment	$10,000
Reservoir	$550,000
Reservoir Piping	$50,000
Telemetry	$50,000
TOTAL	$3,290,000

Sandhill Upgrade project
Cost-Benefit Analysis
from Ratepayer's Perspective
($000)

SENSITIVITY ANALYSIS

	Net Ratepayer Benefit		Payback
	Nominal $	Current $	in Years
Best Estimate	$318,337	$52,763	2.3
Sandhill Estimated Capital Cost			
Increased by 20%	$293,177	$42,002	7.4
Decreased by 20%	$343,497	$63,525	0.0
Sandhill Estimated O&M Expense			
Increased by 20%	$263,499	$37,705	7.3
Decreased by 20%	$373,176	$67,822	0.0
Sandhill Estimated O&M Inflation Rate			
Increased from 3% to 5%	$202,186	$33,497	3.4
Reduced from 3% to 1%	$395,946	$66,900	1.6
Wells Estimated Capital Cost			
Decreased by 20%	$309,869	$49,141	4.2
Increased by 20%	$326,806	$56,386	0.0
Wells Estimated O&M Expense			
Reduced by 20%	$183,140	$20,013	12.1
Increased by 20%	$453,535	$85,514	0.0
Wells Estimated O&M Inflation Rate			
Reduced from 5% to 3%	$117,189	$19,399	5.0
Increased from 5% to 7%	$621,756	$98,955	1.3
Discount Rates			
Increased from 9.4% to 20%	$318,337	$12,702	2.3
Reduced from 9.4% to 5%	$318,337	$114,263	2.3

Cost-Benefit Analysis of Sandhill Upgrade
Changes That Must Be Quantified
(MGD)

			With Sandhill Upgrade							Without Sandhill Upgrade							Changes That Must Be Quantified						
	Required		Installed Capacity				Operated Capacity			Installed Capacity				Operated Capacity			Installed Capacity				Operated Capacity		
	Installed	Water		Existing	New						Existing	New						Existing	New				
Year	Capacity	Demand	Sandhill	Wells	Wells	Total	Sandhill	Wells	Total	Sandhill	Wells	Wells	Total	Sandhill	Wells	Total	Sandhill	Wells	Wells	Total	Sandhill	Wells	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)
2005	84.0	73.0	9.0	66.8	8.1	84.0	9.0	64.0	73.0	9.0	66.8	8.1	84.0	9.0	64.0	73.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2006	85.8	74.7	9.0	66.8	10.0	85.8	9.0	65.7	74.7	9.0	66.8	10.0	85.8	9.0	65.7	74.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	87.7	76.3	29.0	66.8	-8.1	87.7	29.0	47.3	76.3	9.0	66.8	11.9	87.7	9.0	67.3	76.3	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2008	89.7	78.0	29.0	66.8	-6.1	89.7	29.0	49.0	78.0	9.0	66.8	13.9	89.7	9.0	69.0	78.0	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2009	91.5	79.6	29.0	66.8	-4.3	91.5	29.0	50.6	79.6	9.0	66.8	15.7	91.5	9.0	70.6	79.6	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2010	93.5	81.3	29.0	66.8	-2.3	93.5	29.0	52.3	81.3	9.0	66.8	17.7	93.5	9.0	72.3	81.3	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2011	95.3	82.9	29.0	66.8	-0.5	95.3	29.0	53.9	82.9	9.0	66.8	19.5	95.3	9.0	73.9	82.9	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2012	97.2	84.6	29.0	66.8	1.4	97.2	29.0	55.6	84.6	9.0	66.8	21.4	97.2	9.0	75.6	84.6	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2013	99.1	86.2	29.0	66.8	3.3	99.1	29.0	57.2	86.2	9.0	66.8	23.3	99.1	9.0	77.2	86.2	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2014	101.0	87.9	29.0	66.8	5.2	101.0	29.0	58.9	87.9	9.0	66.8	25.2	101.0	9.0	78.9	87.9	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2015	102.9	89.5	29.0	66.8	7.1	102.9	29.0	60.5	89.5	9.0	66.8	27.1	102.9	9.0	80.5	89.5	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2016	104.8	91.2	29.0	66.8	9.0	104.8	29.0	62.2	91.2	9.0	66.8	29.0	104.8	9.0	82.2	91.2	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2017	106.7	92.8	29.0	66.8	10.9	106.7	29.0	63.8	92.8	9.0	66.8	30.9	106.7	9.0	83.8	92.8	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2018	108.6	94.5	29.0	66.8	12.8	108.6	29.0	65.5	94.5	9.0	66.8	32.8	108.6	9.0	85.5	94.5	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2019	110.5	96.1	29.0	66.8	14.7	110.5	29.0	67.1	96.1	9.0	66.8	34.7	110.5	9.0	87.1	96.1	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2020	112.4	97.8	29.0	66.8	16.6	112.4	29.0	68.8	97.8	9.0	66.8	36.6	112.4	9.0	88.8	97.8	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2021	114.3	99.4	29.0	66.8	18.5	114.3	29.0	70.4	99.4	9.0	66.8	38.5	114.3	9.0	90.4	99.4	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2022	116.2	101.1	29.0	66.8	20.4	116.2	29.0	72.1	101.1	9.0	66.8	40.4	116.2	9.0	92.1	101.1	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2023	118.1	102.7	29.0	66.8	22.3	118.1	29.0	73.7	102.7	9.0	66.8	42.3	118.1	9.0	93.7	102.7	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2024	120.0	104.4	29.0	66.8	24.2	120.0	29.0	75.4	104.4	9.0	66.8	44.2	120.0	9.0	95.4	104.4	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0
2025	121.9	106.0	29.0	66.8	26.1	121.9	29.0	77.0	106.0	9.0	66.8	46.1	121.9	9.0	97.0	106.0	20.0	0.0	-20.0	0.0	20.0	-20.0	0.0

Application No. _____

Exhibit No. SG-7

Witness _____

Date _____

SAN GABRIEL VALLEY WATER COMPANY

DIRECT TESTIMONY OF

GERALD J. BLACK

August 2005

Q. ONCE THE UPGRADE IS COMPLETED, WILL THERE BE ANY COST SAVINGS AS RESULT IN OTHER PARTS OF THE FONTANA WATER SYSTEM?

A. Yes. Mr. Dell'Osa's testimony describes the cost-benefits for the Sandhill Plant project and states that the project will pay for itself in two years. In addition, to the extent that additional water supplies are developed in the northern portion of the system, closer in geographic location to the customer demands and readily transported by gravity, San Gabriel will reduce its dependence on the far more costly energy consuming Chino Basin supplies. Much of Chino Basin ground water requires treatment and must be boosted to higher elevations in the distribution system.

Q. COULD THE UPGRADE BE SIZED TO A DIFFERENT SCALE – EITHER SMALLER OR LARGER?

A. No. Extensive thought and engineering has been devoted to the sizing of the Sandhill Plant upgrades and modifications. As mentioned above, the initial phase is designed to be expanded in the future to replace the DE filters when they are no longer economical or practicable to operate.

Q. WHAT OTHER ALTERNATIVE PROJECTS DID FONTANA WATER COMPANY CONSIDER AND WHY WERE THE SANDHILL WATER TREATMENT PLANT UPGRADES CHOSEN?

A. An entirely new West Side Surface Water Treatment Plant was proposed in the company's last general rate case (A.02-11-044). The plant was to be initially designed to treat SWP water at a capacity of 10 to 15 mgd, expandable to 30 mgd. Subsequently, during that two-year rate case proceeding, the company concluded that the Sandhill Plant upgrades and modifications project that was included in the Priority Capital Projects for 2004 and 2005 approved in that rate case should take the place of the West Side Surface Water Treatment Plant at this time. The proposed Sandhill Plant upgrades and modifications were supported by all parties in D.04-07-034, and the Commission approved Priority List.

Q. DOES THIS COMPLETE YOUR PREPARED TESTIMONY?

A. Yes, it does.

EXH. 68

(MacVey/City)

BEFORE THE CALIFORNIA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF SAN GABRIEL WATER COMPANY (U337W) FOR AUTHORITY TO INCREASE RATES CHARGED FOR WATER SERVICE IN ITS FONTANA WATER COMPANY DIVISION TO INCREASE REVENUES BY $11,573,200 OR 39.1% IN 2003; $3,078,400 OR 7.3% IN 2004; $3,078,400 OR 6.8% IN 2005; AND $3,079,900, OR 6.4% IN 2006.) Application No. 02-11-044

IN THE MATTER OF THE APPLICATION OF SAN GABRIEL WATER COMPANY (U337W) FOR AUTHORITY TO INCREASE RATES CHARGED FOR WATER SERVICE IN ITS FONTANA WATER COMPANY DIVISION TO INCREASE REVENUES BY $5,662,900 OR 13.1% IN JULY 2006; $3,072,500 OR 6.3% IN JULY 2007; $2,196,000 OR 4.2% IN JULY 2008.) Application No. 05-08-021

DEPOSITION OF:
DANIEL A. DELL'OSA
TUESDAY, NOVEMBER 22, 2005
9:15 A.M.

REPORTED BY: ANGELIQUE MELODY FERRIO
C.S.R. NO. 6979

Deposition of DANIEL A. DELL'OSA, taken on behalf of the City of Fontana, on Tuesday, November 22, 2005, 9:15 a.m., at 3500 Porsche Way, Ontario, California, before Angelique Melody Ferrio, CSR No. 6979, pursuant to notice.

APPEARANCES OF COUNSEL:

FOR THE CITY OF FONTANA:

BEST, BEST & KRIEGER, LLP
BY: KENDALL H. MACVEY, ESQ.
3750 University Avenue
Suite 400
Riverside, California 92501

FOR THE FONTANA UNIFIED SCHOOL DISTRICT:

FONTANA UNITED SCHOOL DISTRICT
BY: MARVIN T. SAWYER, ESQ.
9680 Citrus Avenue
Fontana, California 92334-5090

APPEARANCES OF COUNSEL (continued):

FOR THE SAN GABRIEL VALLEY WATER COMPANY:

SAN GABRIEL VALLEY WATER COMPANY
BY: TIMOTHY J. RYAN, ESQ.
11142 Garvey Avenue
El Monte, California 91733

NOSSAMAN, GUTHNER, KNOX & ELLIOTT, LLP
BY: MARTIN A. MATTES, ESQ.
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San Francisco, California 94111

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EXHIBITS

NO.	PAGE	DESCRIPTION
None		

UNANSWERED QUESTIONS

None

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And I will just for the record refer to the amended notice of deposition received by the Company which specifically limits the scope of the inquiry. Limits the documents that were asked to be brought here to his audit testimony. The witness is available for examination on that topic.

MR. MACVEY: It speaks for itself. And you don't limit the subject matter of a deposition by a document request. That's fundamental in California in civil litigation.

MR. SAWYER: The School District's position on that particular matter is that Mr. Dell'Osa has already testified that money from the audit report perhaps may be included in the Sandhill Plant in the sense that all money that you receive from the condemnation proceeds somehow gets into the infrastructure and therefore Sandhill is part of that process, so.

THE WITNESS: I don't think that Mr. Batt has identified the Sandhill Project as one of the jobs that the proceeds have been used for.

MR. MACVEY: Anyway, let's move on. And I'd be happy to re-notice his deposition if you're concerned about it, so.

MR. RYAN: There's no instruction.

MR. MACVEY: But that's fine. I think that

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the matter can be moved on.

BY MR. MACVEY:

Q. Mr. Batt, the cost benefit study that I'm referring to is the one that was appended to your August of 2005 testimony.

Are you familiar with what I'm referring to when I say cost benefit study?

A. Yes, except that you called me Mr. Batt.

Q. Sorry. Mr. Dell'Osa.

Was that a study that you did on your own initiative?

A. Yes, it is.

Q. And would you just generally explain what you attempted to do in that study?

A. Well, the cost benefit study is a financial tool that you use to evaluate various alternatives, various project alternatives.

And what I did with my study is that I compared the Sandhill project with the, what I called the no project alternative which I spoke with Mr. Loguidice and he told me that if he did not do the Sandhill upgrade, then it would be necessary to drill additional wells in the Chino Basin.

Q. So by no project alternative, it's still another project, but it would just mean more wells; is

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that correct?

A. Yes, but we do have to satisfy that need to supply water.

Q. So the assumption was that there would be some kind of project one way or the other, wells or the Sandhill upgrade; is that correct?

A. Yes.

Q. And have you done cost benefit studies before?

A. Yes, I have.

Q. And for which projects?

A. I remember back in the eighties when I worked for Southern California Edison that I worked on C.P.C.N. which are Certificate of Public Convenience and Necessity.

Electric utilities are required to seek pre-approval from the Commission for building transmission line projects and generation projects.

Also, at the University of Phoenix I taught some finance courses. And cost benefit was part of the curriculum.

Q. When was the last time that you did a cost benefit study?

A. This past summer when I did this.

Q. The one before that?

A. Outside of the classroom, I would think it

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would be back in the eighties when I worked for Southern California Edison Company.

Q. When you prepared your cost benefit study, did you consult any manuals or books?

A. No. It's a fairly simple analysis.

Q. Did you confer with anybody?

A. Only to get the input assumptions.

Q. And that was from Mr. Loguidice?

A. Yes.

Q. There was a proposed Sandhill upgrade in the prior rate proceeding was there not?

A. Yes.

Q. Did you do a cost benefit analysis for that then?

A. No, I did not.

Q. Why not?

A. I was not asked to.

Q. Were you asked this time?

A. Under the new rate case plan the Commission requires us to put in additional support for our proposed projects.

And I believe that Mr. Whitehead was the one who asked me to either perform the study or to find an outside consultant who could do the study.

Q. So it was not on your own initiative, but it

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was done at Mr. Whitehead's request?
A. I volunteered. I told him that I was capable of doing such a study.
Q. And he suggested the possibility of getting outside support to do that study; is that correct?
A. He talked about that.
Q. Did you discuss who might be able to do it on the outside?
A. No. I was familiar with the study and I knew that it was a relatively simple calculation.
Q. Now, you said in part that it's needed because of the new rate case plan; is that correct?
A. It's one tool to help you decide between alternatives. So it's additional support for the project that we've included in our capital budget.
Q. You didn't do it for any other capital projects; did you?
A. No, I didn't, not in this case. This was by far the largest project. And that's why I did it for this particular project.
Q. And you didn't do it previously for the Sandhill proposed upgrades in the prior proceeding because it was not -- why?
A. I could have. I just was not asked to and I didn't do. There was no particular reason.

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Q. In your cost benefit analysis, did you factor in the cost of the Sandhill Plant?
A. Of course.
Q. And that includes the capital expenditures part?
A. Both capital and operating.
Q. And do you know what the capital expenditures are proposed by the Company for the Sandhill upgrades?
A. Yes, I do, 34 million dollars.
Q. Over what period of time?
A. The construction has already started. And it's expected to be completed, I believe, in mid 2007.
Q. And will it increase capacity before 2007 or does it have to be completed?
A. I think you better ask Mr. Batt and Mr. Loguidice that question.
Q. When you did your cost benefit analysis, you didn't assume that there would be production prior to 2007?
A. I didn't even relate it to specific years. I just used years zero through years 30. It's a simplified analysis.
Q. Year zero would be the commencement of construction or the ending of construction?
A. It would be the ending of construction. Year

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one would be the first year of operation.
Q. How do you know that it's 34 million dollars?
A. That's the amount that is included in the capital budget.
Q. Are there any ancillary capital costs associated with the Sandhill Plant that are not included in the 34 million dollars?
A. I believe that's the total cost.
Q. And your understanding is that that will increase the water supply by how much?
A. The assumption that we used was 20 M.G.D.
Q. So when you start out at year zero then it will be 20 M.G.D.; is that correct?
A. Yes. I included a table which I labeled B-7 to kind of illustrate that.
Q. Now by the way, do you know if any California Environmental Review has been done on the Sandhill Project?
A. I don't know.
Q. You're familiar with the California Environmental Quality Act?
A. S.E.Q.A.
Q. You don't know if any S.E.Q.A. has been done on the project?
A. I don't know.

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Q. And you're not a water engineer; are you?
A. No, I'm not.
Q. Did you go back and take a look at what was proposed by the Company previously on the Sandhill upgrades?
A. No. I didn't think that was relevant to this study.
Q. Is it accurate to say that what had been proposed on the prior rate proceeding was less than ten million dollars for the Sandhill upgrades?
A. I think that's right, yes.
Q. And in doing your cost benefit analysis you didn't think it was appropriate to see whether, in fact, the Sandhill upgrades could be done for less than 34 million dollars?
A. That was not the purpose of the study. That's a different project. The purpose of this study is to compare our plant project with an alternative.
Q. So how did the Sandhill proposed project in the prior proceeding that was less than ten million dollars compare to the one that is now 34 million dollars and what it could do?
A. That's an engineering question.
MR. RYAN: Objection, vague and ambiguous as to compare. Compare in what terms of dollars, days,

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capacity?
MR. MACVEY: I'll be happy to clarify it.
BY MR. MACVEY:
Q. Do you know what the proposed prior Sandhill upgrades would do in terms of increasing capacity?
A. No.
MR. RYAN: Objection, which Sandhill upgrades, the ones that --
MR. MACVEY: That's what I said, Mr. Ryan, the prior one.
BY MR. MACVEY:
Q. The answer is that you don't know?
A. I'm not familiar with the differences in the two projects.
Q. So when you had this discussion with Mr. Whitehead about doing a cost benefit analysis, did he give you any kind of instructions on what you're supposed to do on it?
A. No.
Q. It didn't come up that there had been a previous Sandhill upgrade project; that did not come up in your discussion with Mr. Whitehead?
A. Like I said, it's a different project. So it's not relevant to the study.
Q. When you say it's a different project, how is

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it different; in what ways does it differ?
A. I don't know what ways other than the cost of 34 million dollars versus less than ten.
Q. So you don't know if it's any different in terms of what it can do in terms of increase in supply; do you?
A. No, I don't.
Q. Okay. What information did Mr. Loguidice give you?
A. That information can be found on page B-5. And my assumptions are summarized on page B-4.
Q. So each one of those assumptions on page B-4 of your testimony is that taken from information that was given to you by Mr. Loguidice?
A. Mr. Loguidice did not give me the depreciation accrual rate.
He did not give me the pre-tax rate of return.
He did not give me the proper tax rate.
He did not give me the "O" and "M" inflation rate or the discount rate.
The other information was provided by him.
Q. So on the project cost of 34 million dollars for the Sandhill upgrade, he gave you that information then?
A. Yes. That comes right out of the Company's

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capital budget.
Q. And you haven't done anything to verify independently whether that number is accurate or not other than taking it from Mr. Loguidice; is that correct?
A. That's correct.
Q. When we look at the number new well site, what does that refer to?
A. That would be the alternative project or the no project in this case. If the Sandhill upgrade was not built, Mr. Loguidice tells me that we would need to spend about three point three million dollars in new wells on the related facilities.
Q. What was your understanding how many new wells that would involved?
A. My understanding is that it would provide a capacity of five point 75 M.G.D. which I then needed to ratio up to the 20 M.G.D. for the Sandhill Project to make the two comparable.
Q. I'm not sure that I understand that; what do you mean by ratio up?
A. Well, in order to compare projects you need to compare apples to apples. And therefore I needed to have both the project that I was evaluating and the alternative project producing 20 M.G.D.

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Q. So basically the new well site would represent you indicated five point seven million gallons per day; is that correct?
A. That's correct.
Q. And so then you would multiply that by four is that what you would do to get it or what would you do to get it up to the 20?
A. It's a little bit less than four, but yes.
Q. So you did a multiple of that in order to do that?
A. That's correct.
Q. Did you assume that there would be any declining costs with the scale as far as doing that?
A. No, I did not.
Q. Did you ask Mr. Loguidice whether there would be or not?
A. No, I did not.
Q. And do you know getting back to my prior question of the new well site where it says there in Exhibit B-4 to your testimony three million 290 thousand dollars how many wells that represents?
A. If I look on page B-5 which is provided by Mr. Loguidice on the right-hand column, he lists the three point three million dollar capital cost. And it looks like there are two wells involved there.

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Q. So the cost is two wells at three point five seven five M.G.D. at three million 290 thousand dollars; is that correct?
A. That's correct.
Q. And so your conclusion is that based upon the study that it would be preferable to rely upon the Sandhill Treatment Plant as opposed to the alternative of having the wells; is that correct?
A. Yes. The results of the study are very clear that Sandhill is the preferable alternative.
Q. And how many wells does that represent?
A. We talked about a multiple, approximately, four so that would be approximately eight wells altogether.
Q. Did you ever confirm that with Mr. Loguidice whether or not it would in fact be eight wells that were needed?
A. No.
Q. And would it be fair to say that your cost benefit study would also indicate that it would be more cost effective to use Sandhill than to do perchlorate treatment of wells?
A. Sorry, repeat that. I lost the last part of your question.
MR. MACVEY: Read the question back for me, please.

(Whereupon, the record was read as follows.)
Q. And would it be fair to say that your cost benefit study would also indicate that it would be more cost effective to use Sandhill than to do perchlorate treatment of wells?

THE WITNESS: I did not evaluate perchlorate treatment of wells. Mr. Loguidice told me the alternative project would be drilling new wells.
BY MR. MACVEY:
Q. Do you know where Mr. Loguidice got the information on the cost of the wells that he used?
A. I don't know. He has designed and built a lot of wells over his career, but I don't know exactly where he got the information.
Q. Are there proposed new wells in the capital budget that is being under consideration in the new rate application?
A. There are.
Q. And what are the costs of those wells?
A. I don't recall.
Q. Did you compare the costs of what you're using for your cost benefit study with the costs in the budget?
A. I did not.
Q. So you don't know whether they're lower or higher or the same; do you?
A. They came from the same source. So I assume that they are comparable.
Q. And then in your cost benefit study you did no analysis as to what the need for supply would be, you just took that as an assumption; is that correct?
A. I believe that assumption was provided by Mr. Loguidice.
Q. And I guess you would agree then that the cost benefit study is only as good as the assumptions; is that correct?
A. That's correct.
Q. Okay.
A. I did perform a sensitivity analysis to test the assumptions. And in all of the variations that I tried with the assumptions, it still showed that the Sandhill upgrade project was by far the more cost effective alternative.
Q. Did you run that sensitivity analysis past Mr. Loguidice?
A. No.
Q. Did anybody view that sensitivity analysis other than yourself?
A. I'm sure that I've shared it with other people in the Company. I don't recall discussing the particulars with anybody.
Q. Did anybody review your cost benefit study at the Company?
A. Like I just said, I did share it with others in part of the preparation for this rate case, but I don't recall any specific discussions on the analysis.
Q. Did you do drafts of the cost benefit study?
A. I don't think – no. I did not do drafts. It was just, like I said, it's a simple calculation.
Q. So you've done only one study, one version, and there are no prior drafts of it?
A. Yes. When you say one version, the sensitivity analysis would be, I guess, other versions, but yes, it's essentially what you see here.
Q. So you didn't get any input from others at the Company or outside the Company to make revisions to the study?
A. No.
Q. So the only people that were involved in this study would be Mr. Whitehead asked you to do it; is that correct?

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A. Yes.
Q. And Mr. Loguidice who gave you the input on some of the assumptions of the study; is that correct?
A. That's correct.
Q. And yourself?
A. Yes, sir.
Q. Anyone else?
A. No.
Q. Okay. Going to the operating maintenance costs of the Sandhill upgrade, that was obviously provided to you by Mr. Loguidice; is that correct?
A. That's correct.
Q. And so do you know where he got that information?
A. No, I don't.
Q. Is there any track record of what the operational costs are for the Sandhill Project?
A. These are the operational costs for the upgrade, not for the existing treatment facility.
Q. Do you know what the source of Mr. Loguidice's information on those operational costs is?
A. No, I don't.
Q. And how about on the operating cost of the new well site, do you know where Mr. Loguidice got those?
A. I think that it's detailed on page B-5. If

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you look at the top left-hand corner of the page, those were his assumptions.
Q. Okay. On the right is the cost of the site; is that correct?
A. That would be the capital cost, yes.
Q. What about the operation cost is that reflected where he got that?
A. On the left at the top, yes.
Q. On the left?
A. Yes.
Q. Okay.
A. And the Sandhill costs, too, are on the lower left side.
Q. Do you know if Mr. Loguidice had any assistance in preparing these cost estimates?
A. There's one gentleman that works for him Chris Diggs who helped him prepare this.
Q. And who did the design on the Sandhill upgrade?
A. I believe that was outsourced.
Q. Who was it outsourced to?
A. I don't recall the name of the Company.
Q. Is it Black And Beach or do you know?
A. It certainly could be.
Q. This cost benefit study, did anyone confer

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with the Company with the designer of the project?
A. Not that I'm aware of.
Q. As far as you know, the designer of the project has not reviewed this cost benefit study?
A. That's correct.
Q. Was there any reason why input was not asked from the designer of the project?
A. I don't know that it wasn't. I got the assumptions from Mr. Loguidice. And some of these costs could have come from the designer of the project.
Q. Mr. Whitehead asked you to do this cost benefit analysis; when was that?
MR. RYAN: Objection that misstates the testimony as to what Mr. Whitehead instructed Mr. Dell'Osa to do.
BY MR. MACVEY:
Q. Well, you did have a discussion with Mr. Whitehead about doing a cost benefit analysis; is that correct?
A. Yes. He talked about the desire to have an analysis and I volunteered my services.
Q. In what context did he ask for it; were there other people in the room?
A. I don't recall the exact conversation. There probably were other people in the room. It was probably

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during our, we have meetings with all of the participants in the rate case. And we discussed how to present our case. So it was probably during one of those meetings.
Q. And so basically was it up for grabs for whoever wanted to volunteer to do this study?
A. I don't recall specifically.
Q. But you said that you could do it?
A. I did. I volunteered.
Q. And were there other people in the room where this invitation was open to?
A. I don't recall any other interest of anyone else in the Company who wanted to do the study. There was no competition, I guess.
Q. And how many were in the room?
A. Well, during our rate case meetings we probably have about ten people.
Q. Who would be included in such meetings?
A. Basically, the witnesses in our rate case.
Q. So you would all get together and talk about who would do what and testify about what?
A. Yes.
Q. And when Mr. Whitehead brought up the cost benefit study, what did he say about it?
A. Like I say, I can't recall the exact

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discussion. I just remember that he had a desire that we included a cost benefit analysis with our general rate case. And I offered to perform that study which I did.

Q. And when was this discussion?

A. It was probably in the spring of this year.

Q. And has there ever previously been any discussion that you've been privy to where the possibility of doing a cost benefit study on a Company project was talked about?

A. I can't recall any. I probably would have volunteered to do that one, too.

Q. Did you receive any instructions on how to perform the cost benefit study?

A. No.

Q. Did Mr. Whitehead review your study?

A. I'm sure that he did.

Q. Did he make any comments or feedback on it?

A. I don't recall any specific comments, no.

Q. How about any general comments?

A. He told me that I did a good job.

Q. Did he explain what he meant by that?

A. He said that it was convincing that the Sandhill Project was the way to go.

Q. And had the Company already signed contracts

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to proceed with Sandhill when this study was done?

A. Possibly. I'm not sure when the contracts were signed in relationship to when I did the study.

Q. And when did you do the study?

A. I believe it was this past spring. I don't recall exactly.

Q. I'm looking at your Exhibit B-5 and it has a date of May 27, 2005; is that an accurate date?

A. Yeah. So that's probably when I got the input. So it was likely the end of May or the very beginning of June.

Q. And do you know if the Company had already signed up to do the project before then?

A. I don't know what contracts were signed at that point.

Q. Do you know whether this study was used to determine whether or not to proceed with the project?

A. No. I don't know.

Q. Do you believe that it was actually?

A. I don't know.

Q. When was the proposed application with the Commission filed?

A. It was filed on June 6th.

Q. And how long had there been discussion about doing the Sandhill Treatment Project as part of the

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capital budget?

A. I'm sorry, repeat that.

Q. How long has this project been talked about internally?

A. Well, we began talking about it at least as early as the last rate case. I don't know exactly when it was initially talked about.

Q. And so as far as you know there was never a cost benefit study done on the prior version of the Sandhill upgrades; is that correct?

A. That's correct.

MR. MACVEY: I think that I'm done for now, sir.

(Discussion held off the record.)

EXAMINATION

BY MR. SAWYER:

Q. We're here to continue with this deposition. My instructions are essentially the same as those that were previously given by Mr. MacVey.

If you have any objection to any of my questions with regard to the fact that you can't understand them, please let me know and I'll try to

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restate the question so that it's understandable to you.

If at anytime that you want a break, please take a break. I just have a few questions for you. I think that Mr. MacVey has covered mostly what I also wanted to cover, but just a few things.

A. Okay.

Q. The questions that you have on your direct testimony of Daniel A. Dell'Osa as regarding the Water Division, Water Division Audit Report which is dated October of 2005, who prepared the questions for you to answer?

A. I did.

Q. And how did you determine how to set forth these questions?

A. How did I determine how to structure my testimony?

Q. That's correct.

A. I initially read through the audit report and came up with some ideas and eventually ended up with prepared testimony.

Q. Did you make notes to yourself as you went through that audit report?

A. I used a highlighter and sometimes I would make notes. It's a process.

Q. All of these questions then are self-generated

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BY MR. SAWYER:
Q. Let's go to this.
Besides the cost to build, design and operate the treatment plant, besides those things, then what was left was the damage claim; is that correct?
A. My understanding is that we had a settlement in that proceeding which settled all Company claims.
Q. But you were not present during that settlement?
A. No, I was not. I was not working for the Company at the time that this took place.
Q. And so who would be the best person who would know about how that settlement occurred?
A. Our president, Mr. Whitehead, was certainly there at the time.
Q. What is a sensitivity analysis?
A. A sensitivity analysis is an analysis that is used to test the affect of any errors in your input assumptions.
In the analysis that I did, I took all the key variables such as the capital cost of either Sandhill or the alternative wells, the operating costs.
And I said what would happen if we were off by 20 percent up or down just to see how it might affect the end result.

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Q. And how did it affect the end result?
A. It never changed the end result. If you look on page B-6 that is attached to my prepared testimony, that summarizes those results.
And in every case, the payback period is well below the 30 year life of the project which I assume the worst case would be if the own end expense for the well, of the alternative project was 20 percent less than what I had assumed, in that case you have about a 12 point one year payback which was saying that Sandhill is preferred over the alternative project.
Q. You don't have any operating knowledge about the Sandhill Project; do you?
A. The project that is to be built?
Q. Yes.
A. I have some general knowledge based on what I learned in studying for the treatment certification tests.
Q. What water sources are going to be used for the Sandhill expanded project?
A. We have two basic sources. The Lytle Creek surface water would be the primary source. And the supplemental source would be State Project Water.
Q. And do you have to have a contract to get State Project Water?

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A. My understanding is no. It's served under a tariff. In other words, there's a price list and you can buy all you need subject to those prices.
Q. And who do you buy that from?
A. There are two agencies which I understand we're going to buy the water from. One is called Muni or the San Bernardino Valley Municipal Water District. And the other one is I.E.U.A. which is the Inland Empire Utilities Agency which is a sub-contractor under Met.
Q. Under Metropolitan Water?
A. District of Southern California.
Q. And do you know how much you're going to pay as a tariff for that water?
A. No.
Q. Okay.
A. Although in this cost benefit study that I did if you look on page B-5, Mr. Loguidice did provide me with some assumptions. And he has the cost of water for Muni at $125.80 per acre foot.
And from M.W.D. as $335 per acre foot, but how much we will ultimately pay, I don't know.
Q. Has construction already initiated on the expanded portion of the Sandhill Plant?
A. Yes.
Q. And who is the contractor on that job?

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A. I can't recall the name at the moment. If you suggest a name, I can certainly recognize it.
Q. I wouldn't know.
A. Foster, I believe, is the contract.
Q. And when did the construction begin?
A. Earlier this year.
Q. January and February?
A. I don't know exactly.
Q. Have you ever been to the site?
A. I've been to the site on two or three occasions.
Q. When was the last time that you were at the site?
A. Last Tuesday.
Q. And I think your testimony already was that it will be operational mid 2007?
A. That's Mr. Loguidice's testimony, yes.
Q. Has San Gabriel Water taken F-10 out of production?
A. When?
Q. Have they?
A. Have they ever?
Q. No, currently?
A. I think that it's currently in production.
Q. Is that plant the one that is being treated by

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE

STATE OF CALIFORNIA

ADMINISTRATIVE LAW JUDGE ROBERT BARNETT, presiding.

In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY (U337W) for Authority to Increase Rates Charged for Water Service in its Fontana Water Company Division by $5,992,200 or 13.8% in July 2006, $3,081,100 or 6.2% in July 2007, and $2,194,100 or 4.2% in July 2008.	EVIDENTIARY HEARING Application 05-08-021

REPORTER'S TRANSCRIPT
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either.

Q Mr. Dell'Osa, you had also as part of your August testimony prepared a cost/benefit analysis or study for the Sandhill upgrades; is that correct?

A That is correct.

Q Now, is it true that the last time you ever did a cost/benefit study before this one was in the 1980s?

A That's the last one that I recall doing it in -- as a part of my work. I did that for Southern California Edison Company. I've done cost/benefit studies in the interim just through teaching classes, for example.

Q And it's fair to say that you've never done one for San Gabriel Valley Water Company before; is that correct?

A That is correct.

Q And you never did one for the Sandhill upgrades that were proposed in the prior rate case; is that correct?

A That is correct.

Q And when you did this cost/benefit study, you didn't consult with any manuals or books, did you?

A No, I did not.

Q And as a matter of fact, the only input that you got in preparation of that cost/benefit analysis was provided to you by Mr. LoGuidice; is that correct?

A Mr. LoGuidice provided me the inputs.

Q And nobody else gave you any input; is that correct?

A No.

Q The designer of the Sandhill facility was not consulted in that study, was he?

A No.

Q And as a matter of fact, this study was done for purposes of this rate case, wasn't it?

A Yes, it was.

Q And the circumstances in which it arose how you did this study was that you were in a room with all the -- with all the prospective witnesses in this rate case; isn't that correct?

A That's my recollection, yes.

Q And Mr. Whitehead asked for volunteers to do a study; isn't that true, sir?

A Actually, I think initially he suggested we might look to hire an outside consultant to perform the study.

Q But he also asked for volunteers; is that correct?

A I did volunteer.

Q And you're the only one who volunteered?

A Yes.

Q And basically, by doing that, there wasn't a third party outside source that was going to do the cost/benefit study; is that correct?

A No.

Q And this was actually -- this study was actually prepared in late May of 2005, wasn't it?

A That's correct.

Q And it was actually submitted as part of the proposed application in this proceeding in June 6th of 2005, wasn't it?

A That's correct.

Q So it was basically completed in late May and it was submitted as part of the proposed application on June 6th; is that correct?

A Yes, sir.

Q Approximately a week later?

A Yes, sir.

Q And this study was done after -- after the company had already entered into contract for these Sandhill upgrades; isn't that true, sir?

A Yes. I believe Mr. LoGuidice testified yesterday the contracts were signed in April of 2005.

Q All right. And in the -- so it's fair to say that that cost/benefit study that you prepared was not a basis for the company entering into the contract; is that correct?

A Yes. It was performed afterwards.

Q Now, would it be fair to say that the company retained a qualified firm, in your view, Stetson Engineers?

A I assume they're qualified, but I really have no basis to make that judgment.

Q Well, there was no discussion about having this firm, Stetson Engineers, do the cost/benefit study, was there?

A I'm not aware of any.

Q There was no discussion about having Mr. Johnson do the study, was there?

A I'm not aware of any. There may have been discussions elsewhere in the company, but I certainly wasn't involved in them.

Q And you're not aware of any other particular firm, specific firm, that was contacted about doing a cost/benefit study of the Sandhill upgrades, were you?

A No, I'm not. It's a very simple study.

Q And this simple study, it's simple because you -- you're saying it's simple. Has the company, as far as your knowledge is concerned, ever done such a simple cost/benefit study before for any of its projects?

A I'm not aware of any. They may have.

Q But as far as you know, this is the first time it's ever been done; is that correct?

A This is the first one I'm aware of.

Q All right. Now, and as I understand it, you did it, you prepared it, and who reviewed it?

A I think I distributed it to most of the company witnesses, which would include Mr. Whitehead, Mr. Batt, Mr. LoGuidice. Those would probably be the three primary ones, but I'm sure others have looked

looked at it also.

Q But you never gave it outside of the company, did you?

A Not until we submitted it with our proposed application.

Q Never gave it to Stetson Engineers?

A I never did.

Q Never gave it to Mr. Johnson?

A I never did.

Q Now, would you agree that this study is only as good as the assumptions?

A Yes, sir.

Q So if the assumptions are out of whack, the whole study is out of whack; isn't that true, sir?

A Generally that is true. I did do a sensitivity analysis which tested the assumptions over a wide range, and even over that wide range the study still showed that the Sandhill project was a cost-effective alternative.

Q Well, if the cost is -- obviously when you do a cost/benefit study, you got to know the cost, don't you?

A If you know the cost, it's better. Sometimes you have to assume what the cost will be.

Q And do you really know what the cost is?

A I understand that we have contracts that are signed, and the company is fairly certain about the capital cost of the project. The operating costs would

be more of an estimate since those go out 30 years in the future.

Q Well, you heard Mr. Johnson give testimony about his sheet that showed it was $38.5 million. Do you remember that testimony?

A Yes, I do.

Q You didn't use that number, did you?

A No. I used 34 million.

Q And we've heard some other testimony that there might be some other items that were added to it. And you certainly didn't do a cost/benefit study for a $77 million project, did you?

A No, I did not. As far as the sensitivity analysis, I believe I looked at increasing the capital cost from 34 million by 20 percent, and that's shown on page B-6, which is attached to my direct testimony.

Q Now, did you in your analysis consider the fact that the operating plant principally is going to be operated only for, for its primary purpose, five months out of the year?

A Like you stated earlier, I got my assumptions from Mr. LoGuidice, and those assumptions included the amount of water that would be produced for the entire year.

Q Did you do anything to independently verify those assumptions?

A No, I did not.

Q So you didn't confer with anybody outside of

the company, for example, Mr. Johnson, to verify those assumptions?

A No, sir. The only thing I did was the sensitivity analysis, which looked at changes of plus or minus 20 percent.

Q So you took the information that Mr. LoGuidice gave you. Did you question it? Did you at all ask him about what it meant, what his sources were, how he arrived at it?

A No, sir, I did not.

Q So he just handed it to you and you just took it; is that correct?

A For the purposes of this study, I assumed that his input assumptions were correct with the exception of testing them with a sensitivity analysis.

Q Now, and then you assume a no project alternative; is that correct?

A That's correct.

Q And that no project alternative assumes that basically the supply of water would be totally addressed through wells; is that correct?

A That was the assumption provided by Mr. LoGuidice.

Q He didn't provide you with any other assumptions?

A The assumptions that he provided me with are all shown on B-4 and B-5.

Q Let me rephrase my question. It wasn't clear.

The assumptions as far as the no project alternative, that was the only one he gave you; is that correct?

A Yes, sir. He said if we did not upgrade the Sandhill project, we'd have to rely on additional wells in the Chino Basin.

Q So there wasn't any consideration of an alternative configuration of Sandhill; is that correct?

A No, sir. We had already made the investment decision to go forward with Sandhill upgrade.

Q So there was no consideration in doing this study of doing the al -- looking at the alternative of doing the Sandhill upgrades that were proposed in the prior rate case; is that correct?

A No, sir, there was not.

Q And there was no consideration of looking at the West Side Treatment Plant as an alternative, was there?

A No, sir.

Q And there was no consideration of using recycled water as an alternative, was there?

A No, sir. Mr. LoGuidice told me that if we did not go forward with the Sandhill upgrade, the alternative would be to construct additional wells in Chino Basin.

Q There was no consideration of using conservation as an alternative, was there?

A No, sir.

Q There was no consideration of using a combination of any of those as an alternative, was there?

A No, sir. I just looked at one alternative, and that was the Chino Basin wells.

Q Now, was there any consideration given by the company to the possibility that the water that may be made available by the upgrades of the Sandhill facility might be exported outside of the service area?

A I'm not aware of any.

Q Was there any consideration given as to the fact that the project might be driven by new development?

A No, sir. The purpose of the project, as I understand it, is to provide a cheaper source of water to replace, essentially replace higher-cost water that we have now from the Chino Basin.

Q Is it the company's position that if it has excess water resulting from the Sandhill plant that it will not sell that water outside of the service area?

A I -- that's out of my area of expertise.

Q Whose area of expertise would it be?

A I would believe that either Mr. Whitehead or Mr. LoGuidice would address that.

MR. MAC VEY: So we're punting to Mr. Whitehead again.

All right. I have no further questions at this time, your Honor.

ALJ BARNETT: Thank you. We'll take a 15-minute recess.

(Recess taken)

ALJ BARNETT: The Commission will be in order.

Mr. Allen.

MR. ALLEN: Yes, your Honor, I have some questions.

CROSS-EXAMINATION

BY MR. ALLEN:

Q Good morning, Mr. Dell'Osa. How are you doing today?

A Good morning, Mr. Allen. I'm doing fine. Thank you.

Q I'm going to focus most of my questions on your cost/benefit analysis and trust ORA to cover the other aspects of your testimony, but I do want to go back to some of your assumptions to make sure I have an understanding. In your testimony at B-4 you list assumptions.

A Yes, I have that in front of me.

Q Do you have? Okay. And one of them is capacity. I think it's the second one. Do you see that?

A Yes, sir.

Q Now, the capacity of 20 million gallons, when you use that capacity figure, are you using that on an every day, it's going to produce 20 million gallons in additional capacity every single day?

A No, sir.

Q When do you use that 20 million gallons? How do you use that?

A That's to use to size the alternative project. If you look at the new well site, Mr. LoGuidice told me that would be a 5.75 MGD capacity. So what I needed to do was to make it comparable to the Sandhill. So I used a factor of approximately 4 in terms of the capital costs and the operating costs.

Q How often do you assume the Sandhill plant will be running in your analysis?

A I've made no assumption about that. On page B-5 there's some information that was provided by Mr. LoGuidice which talks about the operating costs.

Q Okay. So when you did your analysis, you didn't assume the difference in supply and the cost differential over a number of days?

A No, sir. This is just looking at annual operating costs as well as the initial investment.

Q Okay. So you're just looking at the cost of the investment and then operating?

A That's correct.

Q All right. I understand now.

Now, one of the assumptions you also made is that in lieu of Sandhill, the only other alternative, as Mr. MacVey just went through, is the no project alternative, correct?

A Yes. That was an assumption that was provided

by Mr. LoGuidice.

Q Okay. And the Sandhill plant, as Mr. LoGuidice has made clear, cannot be relied upon in the summer to meet peak demand. You're going to have to have additional supply for that, correct?

A Yeah. My understanding is the Sandhill plant allows us to provide water at a much cheaper cost than we could provide using Chino Basin wells.

Q So whether or not the Sandhill project is completed, additional wells are going to have to be built to meet peak demand, correct?

A Yes, sir. There's several wells in our application.

Q I understand that. So the actual, the no project alternative has to be done any way because we have to build the wells to meet peak demand whether we do the Sandhill project or not?

A No, sir, that's not correct. If we did not build the Sandhill project, we would have to include additional wells in our capital budget to replace the water that would be provided by Sandhill.

Q Well, let's explore that. We would have to put in additional wells to meet peak demand, correct?

A Yes, sir.

Q Okay. That's independent of Sandhill, correct?

A That's in our capital budget.

Q Now, we have met our peak demand. Sandhill,

however, will be operating primarily to capture the Lytle Creek water in the springtime and the wintertime when the flows are going through Lytle Creek, correct?

MR. RYAN: Objection. Misstates the evidence, misstates the testimony.

ALJ BARNETT: It does?

MR. RYAN: Yes, your Honor.

ALJ BARNETT: I don't know. I thought that's what I heard. Well, you can correct it on recross, I mean redirect, but I heard it the way Mr. Allen has phrased it.

MR. RYAN: Mr. LoGuidice was very, very specific as to what the modifications and upgrades will enable in terms of year-round operation of that plant.

ALJ BARNETT: Well, the evidence is in the record and we can all read it. Go ahead, Mr. Allen.

MR. ALLEN: Thank you.

ALJ BARNETT: The objection is overruled.

MR. ALLEN: Thank you.

Q In the spring and in the wintertime the demand for the service, the customer service is much less, is it not?

A The water demands are less in the springtime. They're the highest in the summer and early fall.

Q Correct. And the Lytle Creek wells are the most available in the springtime and in the winter, correct?

A That is correct. But the Lytle Creek is not

the only source of water for the Sandhill plant.

Q Now, let's be clear because I'm talking about the Lytle Creek wells, because we have surface water that can get to the treatment plant, and separately the wells, I'm just talking about the wells right now. The wells are most plentiful in the spring and the winter, correct?

A That's my understanding after the -- after the snow pack melts and the rains in the winter.

Q Sure. Recharges the aquifer and comes up when it's with water.

Now, that is -- those are the cheapest wells to pump in the entire system, correct?

A That's my understanding.

Q Okay. So that water is very, very cheap compared to the Chino Basin and the other wells, correct?

A Yes, sir.

Q Now, so you can meet most of the demand in the spring and the winter just using the Lytle Creek wells, correct?

A I don't know that.

Q Well, we have the numbers from Mr. LoGuidice. We can look at that and brief it later.

So the time you would be putting the Sandhill plant into its most likely operation, the spring and the winter, is the exact time when we have the most plentiful well supply in the cheapest wells in the

company?

A My understanding is the Sandhill plant will be run 12 months a year. It's just not dependable for peaking purposes, but it will be run 12 months a year.

Q Yes. And but to do it, to use it in the summer, we can't count on it. So we have to build all those wells to meet peak demand any way, correct?

A And those wells are in the company's capital budget.

Q So when you did the no project alternative, did you put in when you add the Sandhill plant cost the cost of all the wells we'd have to build any way?

A No, sir, I did not. I'm looking at it on an incremental basis. It's either Sandhill in or Sandhill out, and if Sandhill is out, then you need to build additional wells.

Q And another thing, you talk about 20 million capacity. Now, the current growth rate is, I believe, 1300 we kind of agreed upon a year?

A That's correct.

Q And we've kind of agreed that one well will supply a little bit more than that. Would you agree with that too?

A I've heard that during these hearings, yes.

Q You have no reason to dispute that, do you?

A I have no reason to dispute that.

Q So just to meet the growth that's going to be expected in this GRC, we're looking at three wells for

three years, a well a year?

A The math sounds right, but again, that's Mr. LoGuidice's area, not mine. So I really can't give you a comment on that.

Q Okay. And if we have a 2,000-gallon-per-minute well, that's the size you're assuming, I take it, by the numbers I see in your new well site. Is that accurate?

A Yes.

Q And so a 2,000-gallon-per-minute well, if we do the math multiplying out by 1,440, it comes out to, oh, about -- let's do the exact math.

A That's 28, 28.8 if I did my math correctly, MGD.

Q How about 2.8 million gallons?

A 2.8.

Q Okay. So that's 2.8. And you have an increased capacity here of 20 million gallons for Sandhill; is that right?

A Yes.

Q And so could you just divide 2.8 into 20 and tell me how many years out that would take to --

A If I divide 20 by 2.88, that's approximately 7.

Q Okay. So that would be seven years out to get to that capacity if it was just growth, correct?

A My understanding is that Sandhill is not being built for growth. It's being built as a cheaper source

of water.

MR. ALLEN: I have no further questions then, your Honor.

ALJ BARNETT: Thank you, Mr. Allen. Ms. Shek.

MS. SHEK: Thank you.

CROSS-EXAMINATION

BY MS. SHEK:

Q Good morning, Mr. Dell'Osa.

A Good morning, Ms. Shek.

Q I'm going to start off with some questions on plant. Is it correct that you do not agree with DRA's recommendation to defer recovery of the Sandhill treatment plant upgrade project and the new office complex?

A ORA's proposal is to allow us to recover those through an advice letter, but they would not allow us to file that advice letter until the projects are completed. The normal course of business, I guess, the ratemaking for water companies is as projects are constructed, water utilities are allowed to put the expenditures into CWIP and earn a rate of return on those projects.

Q Mr. Dell'Osa, can you refer to a specific section in the DRA report that we state that recovery should be made in advice letters?

A I'm looking at my rebuttal testimony, which is Exhibit SG-20, where I address that issue, and on page 2 my reference to the ORA report is 8-15 through 8-17.